



South Dakota Retirement System

Legislative Research Council Executive Board

Funded Status Overview and Legislative Considerations

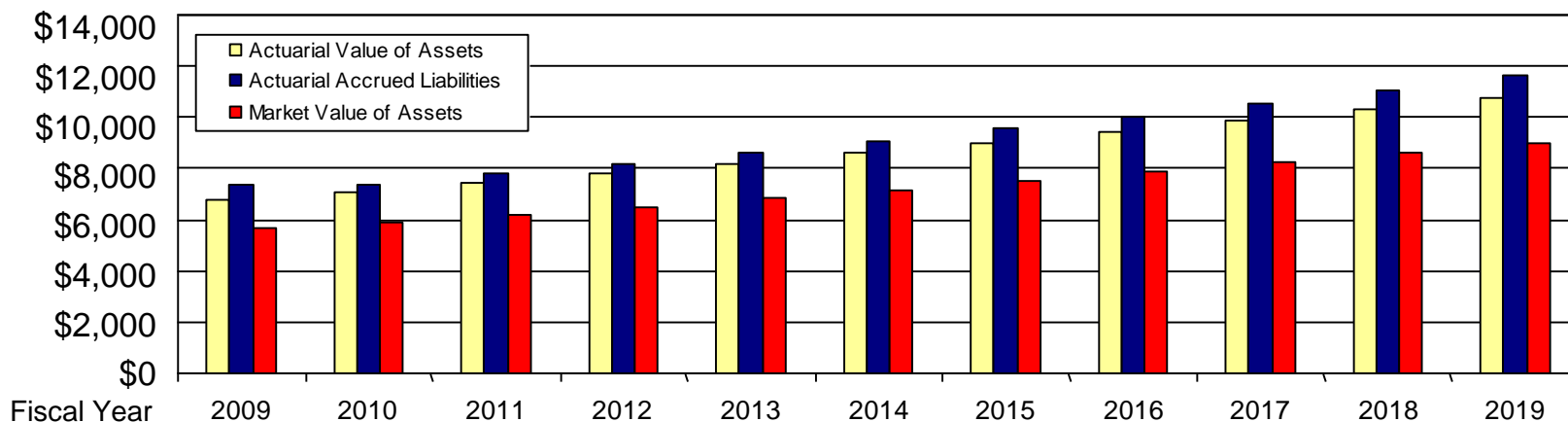
As of June 30, 2009

November 16, 2009



Funded Status Projection

7.75% Annual Return on Market Value of Assets – Assumes 2010 Corrective Action

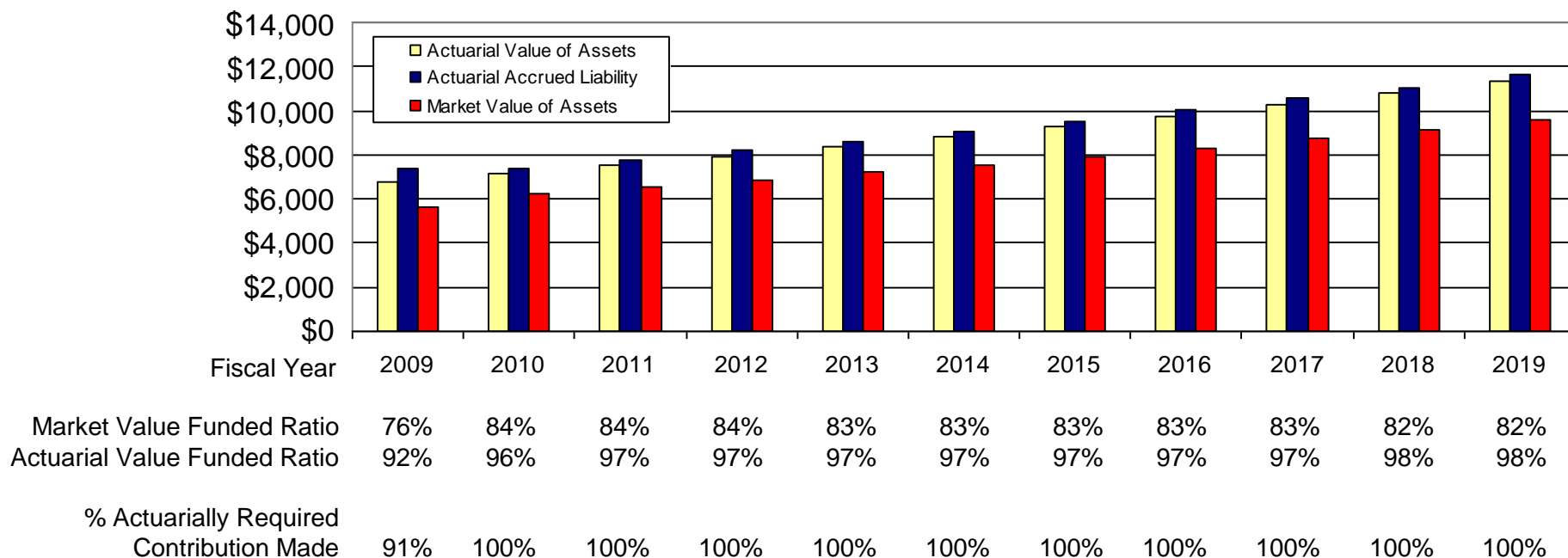


Market Value Funded Ratio	76%	80%	80%	80%	79%	79%	79%	78%	78%	78%	77%
Actuarial Value Funded Ratio	92%	96%	96%	95%	95%	95%	94%	94%	94%	93%	93%
% Actuarially Required Contribution Made	91%	100%	99%	99%	98%	97%	97%	96%	95%	94%	94%
Additional Corrective Action Required			\$35M	\$73M	\$117M	\$166M	\$223M	\$286M	\$358M	\$439M	\$530M



Funded Status Projection Based on FY 2010 Estimated Investment Returns

**One Year at 13.00%, Then 7.75% Annual Return on Market Value of Assets -
Assumes 2010 Corrective Action**





SDRS Board of Trustee Corrective Actions Guidelines

- Any Corrective Actions will consider the long-term nature of pension funding and past practices
- No contribution increases will be requested
- Minor actuarial assumption or method changes will be implemented and any current subsidies addressed
- Any benefit reductions will, if possible:
 - Apply to all SDRS members
 - Maintain the balance of SDRS benefits between short, and long-term members
 - Consider the 2008 benefit increases, which are contingent upon the SDRS funded status
 - Not reduce the benefits currently paid, but slow the future growth of benefits



Corrective Actions Recommendations Effective July 1, 2010

Step 1-Adjust Actuarial Assumptions and Elimination of Subsidies

- Assumption changes made in the FY 2009 Actuarial Valuation
- Reduce or eliminate the current deficit under the Optional Spouse benefit
- Make the Return to Work provisions cost neutral

Step 2-Changes to Benefits that Exceed Competitive Practices and that Reflect the SDRS Funded Status

- Eliminate first-year pro-rated COLA for retirees and all other pro-rated benefits including interest credits
- Reduce PRO employer contribution refund from 75% to 50% for non-vested members, and from 100% to 85% for vested members
- Index SDRS COLA and base on SDRS Funded Status (3.1% maximum COLA and 2.1% minimum)



Other Potential Legislation - Fiduciary Responsibilities

- **Fiduciary Responsibilities: Independent Status**
Add a new section to SDCL ch. 3-12 to exempt SDRS from the provisions of SDCL 12-27-20, which limit the expenditure of SDRS trust funds for communications with members concerning ballot issues. (This would not exempt SDRS from the statute's limitations on supporting candidates for office.)

Amend SDCL 3-12-54 and SDCL 3-12-61 to specify SDRS's independence and stand-alone status within state government.
- **Fiduciary Responsibilities: Exclusive Benefit Rule**
Amend SDCL 3-12-54 to forcefully restrict trust fund investment to strengthen SDRS's "exclusive benefit" rule and to specifically prohibit "social investing" of member trust funds. Also, add a definition of "social investing" to SDCL 3-12-47.



National Institute on Retirement Security – Pensionomics Study

- Taxpayer Investment Factor is the amount of economic output created for each \$1 taxpayers contributed to fund retiree pensions
- Average Taxpayer Investment Factors by State - \$6.70
- South Dakota Taxpayer Investment Factor – \$12.49
(Number one ranked pension plan in the nation)
- Only 10% of SDRS pensions paid have been funded by South Dakota taxpayers contributions
(Average taxpayer funded rate by State - 20%)